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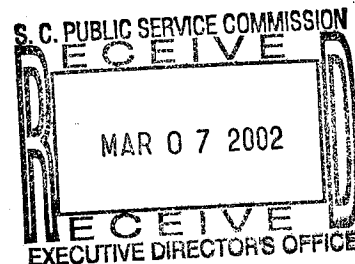
KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2001-164-W/S

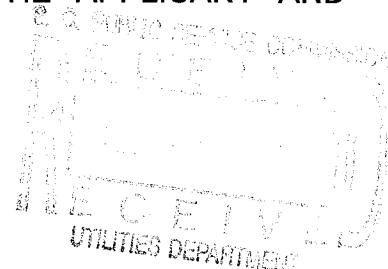
PRE-FILED DIRECT TESTIMONY OF WALTER T. CUTHBERT
BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: March 5, 2002

Hearing Date: March 13, 2002



THIS TESTIMONY IS FILED PURSUANT TO PSC ORDERS DATED JANUARY 15, 2002. THE INTERVENOR RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND PROVIDE FURTHER RESPONSIVE TESTIMONY IN RESPONSE TO THE TESTIMONY THAT WILL BE PREFILED BY THE APPLICANT AND COMMISSION STAFF.



MICHAEL A. MOLONY: PLEASE STATE YOUR NAME AND CURRENT OCCUPATION.

WALTER T. CUTHBERT: My name is Tommy Cuthbert. I am the Director of Golf for the golf company intervenors, Cougar Point Golf Company, LLC, Osprey Point Golf Company, LLC, The Ocean Course Golf Club, LLC, and Turtle Point Golf Company, LLC (hereinafter "Golf Companies"). The Golf Companies are owned by Virginia Investment Trust. (hereinafter "VIT").

1 MR. MOLONY: HOW LONG HAVE YOU WORKED WITH THE GOLF COMPANIES?

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3 MR. CUTHBERT: I began work at Kiawah Island on April 15, 1976 for Kiawah Island
4 Company as Head Golf Professional at Marsh Point Golf Course. Marsh Point was
5 renamed Cougar Point after a complete renovation in 1998. In 1988, KRA purchased
6 the Kiawah Island Company and then sold the golf courses, tennis courts and hotel
7 properties to Landmark Land of Carolina. I worked for the Landmark Land Company
8 until October 1, 1993, when VIT purchased the golf courses, tennis courts and hotel. I
9 have been employed by VIT since that time.

10
11 MR. MOLONY: PLEASE OUTLINE YOUR CURRENT RESPONSIBILITIES AS THE
12 DIRECTOR OF GOLF FOR THE GOLF COMPANIES.

13
14 MR. CUTHBERT: As Director of Golf I have responsibilities for personnel, budgeting,
15 new construction of buildings and golf courses, all improvements of buildings and golf
16 courses, purchasing of machinery and equipment, maintenance for the 4 public courses
17 on Kiawah Island and also for the newly purchased Oak Point Golf Course. I am
18 responsible for establishing rates for golf, rates for golf packages, and membership
19 rates for the Governor's Club.

20
21 MR. MOLONY: TO THE BEST OF YOUR KNOWLEDGE, HAVE ANY OF THE GOLF
22 COMPANIES EVER INTERVENED IN A KIAWAH ISLAND UTILITY (HEREIN AFTER
23 "KIU") RATE APPLICATION PRIOR TO THE APPLICATION PRESENTLY BEFORE
24 THE COMMISSION?

1

2 MR. CUTHBERT: The Golf Companies directly intervened in one rate case, designated
3 with Docket Number 98-328. The Golf Companies are also considered property
4 owners, and I am aware that the Kiawah Property Owners Group ("KPOG") intervened
5 in previous rate applications. Therefore, I assume we indirectly intervened as a
6 member of KPOG.

7

8 MR. MOLONY: WHY HAVE THE GOLF COMPANIES CHOSEN TO INTERVENE IN
9 THIS MOST RECENT RATE APPLICATION BY KIU?

10

11 MR. CUTHBERT: KIU is the only alternative for purchasing water on Kiawah Island.
12 We understand that KIU is a business and entitled to increased rates as its costs
13 increase (e.g. purchased water). However, the new rate structure proposed by KIU
14 punishes the golf courses for attempting to conserve potable water for use on Kiawah
15 Island.

16

17 MR. MOLONY: DESCRIBE THE GOLF COMPANIES' USAGE OF KIU SUPPLIED
18 WATER AND GENERAL WATER NEEDS.

19

20 MR. CUTHBERT: All four VIT owned golf courses (designated as "Cougar", "Turtle",
21 Osprey" and the "Ocean Course") are contractually required to accept effluent from KIU.
22 In practice, Cougar and Turtle receive effluent and other irrigation, but Osprey and the
23 Ocean Course do not. Osprey and the Ocean Course are irrigated entirely through deep
24 water wells not part of the KIU water distribution system. However, lines to deliver

1 effluent, potable and any other type water are in place for all four golf courses. These
2 lines were put in place at the building of each golf course, between 1976 and 1991.

3 Regarding irrigation needs, they are highest in the summer, and the average
4 summertime need for the four courses is as follows:

5

| <u>Course</u> | <u>Gallons per day</u> |
|---------------|------------------------|
| Cougar | 550,000 to 750,000 |
| Turtle | 550,000 to 750,000 |
| Osprey | 550,000 to 750,000 |
| Ocean Course | 650,000 to 850,000 |

6
7 If a course goes without water in a Charleston summer, all grass will turn brown
8 and go off color in several days. Shortly thereafter, the grass on the course will begin to
9 die. It would then take considerable time and money for the course to recover.

10 The non-KIU deep water wells supplying Osprey and the Ocean Course
11 adequately meet irrigation needs, but if the wells stop pumping for any reason, we need
12 the ability to receive water from KIU. This need has arisen one time since the wells
13 were dug and installed in 1997 for Osprey. To my recollection, the need has not arisen
14 at the Ocean Course, since the wells were dug and installed in 1989.

15
16 MR. MOLONY: WHAT ARE YOUR CONCERNS REGARDING THE RATE INCREASE
17 REQUESTED BY KIU?

1 MR. CUTHBERT: I have two main concerns, Rate Schedule No. 6 and Rate Schedule
2 No. 8.

3
4 MR. MOLONY: WHAT ARE YOUR CONCERNS REGARDING RATE SCHEDULE NO.
5 6?

6
7 MR. CUTHBERT: KIU proposes to increase the availability fee from the current
8 aggregate of \$4,217.40 to \$5,833.63 per month for each course. That is a 38%
9 increase. This means that each golf course must pay \$70,003.56 per year just to have
10 the right to receive KIU's effluent and other water. This increase bears no rational
11 relation to objective criteria. We are charged this "availability" fee whether we use KIU's
12 water or not. Further, the infrastructure to supply all golf courses is in place and has
13 been in place for many years, yet KIU wants 38% more just to maintain status quo.
14 Osprey and the Ocean Course would be expected to pay these rates even though those
15 courses would only need water in extreme emergency situations.

16
17 MR. MOLONY: WHAT ARE YOUR CONCERNS REGARDING RATE SCHEDULE NO.
18 8?

19
20 MR. CUTHBERT: Rate Schedule No. 8 is a punitive tariff and offer of insurance for golf
21 courses that do not need KIU water. Two golf courses are eligible to be assessed
22 under Number 8, Osprey and the Ocean Course. Business decisions were made
23 several years ago that digging or purchasing wells for these courses would be less
24 expensive than paying "availability" fees and actual cost of irrigation to KIU. Also, KIU

1 could not make enough water available to irrigate all golf courses on Kiawah Island.
2 Osprey dug a well, and the Ocean Course actually purchased its well from and with the
3 blessing of KIU. Golf course ownership of these wells actually benefited KIU because
4 KIU could not provide sufficient irrigation water. Further, KIU made a business decision
5 to sell a well to the Ocean Course. KIU participated in, benefited from and approved of
6 the Ocean Course and Osprey's owning wells, yet now it does not.

7 Osprey and the Ocean Course only need KIU water in an emergency (ie. a pump
8 breaks), yet KIU requests that each course pay several thousand Dollars for the right to
9 emergency use. In fact, under Number 8, "emergency availability" fees are more
10 expensive than regular "availability" fees under Number 6.

11 For instance, even though demand might be as high as 850,00 gallons per day
12 when the well breaks, let's assume that Osprey and the Ocean Course each decide to
13 purchase insurance for only 500,000 gallons of Maximum Daily Standby Demand.
14 Number 8 requires each course to pay \$7,100.00 per month just for the right to buy
15 irrigation. That is 21% more than the straight "availability" fee under Number 6. The
16 Ocean Course and Osprey could each pay \$85,200.00 per year and never receive a
17 drop of irrigation water from KIU.

18 Assume that the Ocean Course decided not to pay, its pump broke 3 summers
19 after Number 8's approval, and the course needed 850,000 gallons of irrigation for one
20 week until the pump could be fixed. Number 8 would authorize KIU to demand
21 \$289,680.00 for the Ocean Course to receive irrigation that week, exclusive of actual
22 water cost. Such a demand has no rational relation to KIU's rate base calculation and is
23 a strictly punitive measure for trying to conserve potable water on Kiawah Island.

1 Schedule Number 8 appears to have been added to ensure that Osprey and the
2 Ocean Course pay Schedule Number 6's "availability" fees by assessing enormous
3 punitive damages if a well breaks.

4
5 MR. MOLONY: DO YOU HAVE ANYTHING ELSE TO ADD?

6
7 MR. CUTHBERT: Yes. I have spoken with several other golf course operators
8 regarding their irrigation practices. Based on my conversations, several of these
9 courses incur no charge at all for using effluent irrigation. It is my understanding that
10 the water companies are required by law to discharge all effluent water (the same is
11 true for KIU). The only manner in which the KIU can discharge effluent is through the
12 golf courses.

13 In this case, KIU's only outlet for its required discharge of effluent water are the
14 courses on the Kiawah Island. While the Golf Companies are contractually obligated to
15 assist KIU with its obligation, it is unfair to further increase the cost of this water when
16 other water companies are providing effluent to golf courses at no charge in exchange
17 for a location to discharge effluent water supply.

18 I am opposed to KIU unfairly increasing
19 its rate. The proposed increase goes far beyond what is needed and is structured so as
20 to unfairly and disproportionately impact golf courses. KIU must dispose of its effluent,
21 and the golf courses are required to accept it

22
23 MR. MOLONY: DOES THIS CONCLUDE YOUR TESTIMONY?

1 MR. CUTHBERT: Yes it does.